

## Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 EURE-00 SSO-00 NSCE-00 INRE-00 AGR-20

AID-20 CEA-02 CIAE-00 COME-00 EB-11 FRB-02 INR-10

NSAE-00 RSC-01 CIEP-02 STR-08 TRSE-00 LAB-06 SIL-01

OMB-01 SS-15 NSC-10 L-03 H-03 USIE-00 PA-03 PRS-01

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TAGS: EAGR, IT

SUBJECT: ITALIAN SOFT AND DURUM WHEAT SITUATION

PASS AGRICULTURE

REF: (A) ROME 8531 (B) STATE 155360 (C) ROME 8377 (D) STATE 171515

1. SUMMARY: GOI IS CAUGHT IN TIGHTENING PREDICAMENT BETWEEN COMMITMENT TO RIGOROUS ENFORCEMENT OF DOMESTIC PRICE FREEZE ON STAPLE BREAD AND PASTA ITEMS AND PRODUCERS' REQUESTS FOR PRICE INCREASES IN LIGHT OF UPSWING IN WHEAT PRICES. CONSEQUENTLY, IMPOSSIBLE PROVIDE PROCESSORS WITH ADEQUATE SUPPLIES OF WHEAT AT REASONABLE PRICES EXCEPT

AT GREAT COST TO ITALIAN TREASURY. (SEE REF A.) END SUMMARY.

2. FURTHER INFORMATION ON CURRENT HARD WHEAT-PASTA SITUATION FOLLOWS.  
REF. D RECEIVED SUBSEQUENT PREPARATION THIS MESSAGE.

3. PRICE AND AVAILABILITY OF BREAD AND PASTA (LIKE BEEF IN THE USA)

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ARE AN INDICATOR FOR MOST ITALIAN CONSUMERS AS TO HEALTH OF ECONOMY.

THE PRICE FREEZE ON MOST IMPORTANT FOOD ITEMS IS MEETING RESISTANCE, IN PARTICULAR FROM FARMERS, DEALERS AND SPECULATORS WHO ARE HOLDING WHEAT SUPPLIES OFF MARKET AS HEDGE AGAINST FURTHER PRICE INCREASES OR RELAZATION OF RETAIL PRICE CONTROLS. WITHOUT THIS HEDGING, WE EXPECT ITALIANS WOULD PROBABLY HAVE SUFFICIENT WHEAT AVAILABLE, INCLUDING DURUM, FROM DOMESTIC PRODUCTION AND IMPORTS. IN AN EFFORT TO BREAK SPECULATION IN BREAD WHEAT, GOI RECENTLY BOUGHT ABOUT 2000,000 TONS SOFT WHEAT FROM FRANCE, THUS SHAKING LOOSE HOARDED STOCKS. DURUM WHEAT PREDICAMENT REMAINS, AND IS FRONT PAGE NEWS ITEM.

4. FOR DURUM GOI HAS RECOURSE ONLY TO PURCHASE FROM NORTH AMERICA OR AUSTRALIA, WHERE SUPPLIES ARE SHORT AND PRICES HIGH. SINCE MINISTER FERRARI-AGGRADI'S REQUEST FOR CONCESSIONAL SALES AUG 18 INTERNAL SITUATION HAS PERCEPTIBLY WORSENED WITH MAJOR PASTA PRODUCER BARILLA (REF C) HOLDING TO ITS PRICE INCREASES WHILE OTHER MANUFACTURERS ARE PUSHING TO FOLLOW SUIT. MINISTER OF INDUSTRY DE MITA MET WITH PASTA INDUSTRY AUG 28. PRESS AUG 29 REPORTS THAT MAJOR PRODUCERS ARE CONTEMPLATING SHUTDOWN. THE PRESS ALSO REPORTS SOME HOARDING BY HOUSEWIVES IN ANTICIPATION OF PRICE INCREASES. LARGEST ITALIAN RETAIL CHAIN (STANDA) TOLD PRESS THAT SALES OF CONTROLLED FOODSTUFFS--OF WHICH PASTA IS AMONG MOST IMPORTANT--ARE RUNNING 20 PERCENT ABOVE NORMAL AVERAGE. MEANWHILE, BUDGET MINISTER GIOLITTI AND FINANCE MINISTER LA MALFA HAVE BEEN PUBLICALLY REAFFIRMING ABSOLUTE NECESSITY OF HOLDING THE LINE ON BUDGET DEFICIT.

5. DURUM WHEAT SITUATION IS COMPLICATED BY 1967 LAW, ORIGINALLY AIMED AT AIDING MEZZOGIORNO DURUM WHEAT FARMERS, WHICH REQUIRES PASTA CONTAIN ONLY DURUM (WHICH HAS BENEFITED US DURUM EXPORTS OVER PAST YEARS). SUSPENDING THIS LAW (WHICH REFEREED TO IN REF D) WOULD PUSH PASTA MANUFACTURERS INTO THE ALREADY TIGHT SUPPLIES OF SOFT WHEAT, SEND PRICES UP FURTHER, AND RISK NEW BREAD SHORTAGES IN THE SOUTH.

6. ON AUGUST 25, TREASURY MINISTER LA MALFA RESPONDED TO STOCKWITHOLDING SITUATION BY PUBLICALLY REQUESTING BANK OF ITALY TO WITHDRAW OR DENY CREDIT TO WHEAT GROWERS AND DEALERS. BANK OF ITALY TRANSMITTED INSTRUCTIONS TO ITS BRANCHES ON AUG 27, BUT PRESS COMMENTATORS ARE SCEPTICAL THAT MEASURES CAN BE SUFFICIENTLY SELECTIVE TO SQUEEZE SPECULATORS. MEANWHILE GOI, HAVING SO FAR LIMITED OFFICIAL USE

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OBTAINED NO CONCESSIONAL SALES FROM THIRD COUNTRIES, HAS INSTRUCTED GOVERNMENT PURCHASING AGENCY AIMA TO ATTEMPT PURCHASE DURUM AT 10,000 LIRE PER 100 KILOS (\$172.50 PER M.T.)

7. COMMENT: PRESENT ARM-WRESTLING BETWEEN GOI AND DOMESTIC WHEAT PROCESSORS HAS IMPLICATIONS FAR BEYOND IMMEDIATE QUESTION OF HOLDING LINE ON BREAD AND PASTA PRODUCTS AS GOI STRUGGLES TO MAINTAIN CREDIBILITY WITH CONSUMERS AND LABOR UNIONS REGARDING ITS ENFORCEMENT OF

DOMESTIC PRICE FREEZE. SHOULD WHEAT PRODUCERS ACCEDE TO PRESSURES  
AND PRICE INCENTIVES TO RELEASE WHEAT STOCKS FOR DOMESTIC SALE, GOI  
WILL HAVE GAINED RESPECT BY DEMONSTRATING ITS ABILITY AND RESOLUTION  
IN HOLDING PRICES OF BASIC FOOD ITEMS. SPECULATORS MAY STILL PLAY  
WAITING GAME IN CONTINUED EFFORTS FORCE GOI TO INCREASE DOMESTIC  
BREAD AND PASTA PRICES. VOLPE

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